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FISCAL IMPACT REPORT

ORIGINAL DATE 1/21/08
LAST UPDATED 1/23/08 **HB** _____

SPONSOR Beffort

SHORT TITLE Health Insurance Tax Credit **SB** 39/aSCORC

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(\$6,100.0)	(\$12,200.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to HB62, SB3, HB147, HB214, SB228, HB205
 Conflicts with SB115

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amended SB39 to change the word “coverage” to “insurance.” The amendment does not change the fiscal impact.

Synopsis of Original Bill

Senate bill 39 creates a new credit called the “Health Insurance Tax Credit” which is a credit for a portion of health insurance premiums paid by New Mexico residents under certain conditions. The taxpayer must not be a dependent of another taxpayer, must not be enrolled in a Medicaid or SCHIP program, did not claim the premium as part of federal itemized deductions or as part of the state medical expenses deduction.

For residents who receive coverage under an employer sponsored health plan and whose household income is less than 100 percent of the federal poverty level (FPL) and for residents who do not have coverage under an employer-sponsored plan and whose household income is

less than 200 percent of FPL, the credit is the greater of \$2,500 or 50 percent of the resident’s contribution to health coverage. The credit is refundable so if it exceeds the taxpayer’s personal income tax liability, the excess is refunded.

2007 Federal Poverty Level (FPL)

Family Size	100%	200%
1	10,212	20,424
2	13,692	27,384
3	17,172	34,344
4	20,652	41,304
5	24,132	48,264
6	27,612	55,224
7	31,092	62,184
8	34,572	69,144

The effective date is for tax years beginning on or after January 1, 2008.

FISCAL IMPLICATIONS

The fiscal impact could potentially be enormous because the language does not have many restrictions as to what constitutes health insurance coverage. The numbers shown below assume a phased-in take up rate with a maximum of 50 percent of eligible taxpayers taking the credit. The central reason that this is so high is to address TRD’s concern that the insurance industry will develop “empty” policies so that taxpayers can take advantage of the credit. Adding a definition of health insurance coverage and a certification process would greatly reduce the fiscal impact.

Fiscal Impact

	549,949		
Eligible	100% FPL	200% FPL	All Eligible
Share Below Level	19%	10%	
Population	106,140	56,095	162,235
Share currently uninsured	30%	30%	
	31,842	16,828	48,670
Credit	2,500	2,500	
Max Credit Amount (100% take-up rate)	79,605,118	42,071,099	121,676,216
	Take-up Rate		
FY09	5%		6,083,811
FY10	10%		12,167,622
FY11	30%		36,502,865
FY12	50%		60,838,108

SIGNIFICANT ISSUES

Nationally, health insurance premiums grew tremendously over the last decade and though the rate of growth has slowed in the last two years, it remains near 10 percent. That compares with inflation at approximately 3 percent and the economy which is also growing at about 3 percent. As the premiums increase, the number of employers offering health insurance decreases. According to the Kaiser Family Foundation, which tracks a host of health related issues, the percentage of employers offering health insurance has dropped from 69 percent to 60 percent in the last few years.

Mathematica Policy Research, Inc. prepared a report for the Health Coverage for New Mexicans Committee (HCNMC) over the last year and found that approximately 79 percent of private sector employees in New Mexico are employed by firms that offer health insurance coverage but just half of the employees are enrolled. Many of these may be enrolled in spouse insurance. However, just 39 percent of small employers that employ less than 25 percent offer insurance.

The HCNMC looked at several models but did not recommend any. The executive has proposed a plan called Health Solutions that this legislation would likely complement. Another plan, a single payer plan, called Health Security would reform the health care delivery system so that employers no longer provided health insurance and so this bill would conflict with that proposal.

TRD:

The bill does not define the nature of coverage required for health insurance to qualify for the credit. **This structure creates a very strong incentive for some insurance companies to issue health insurance policies that provide only minimal coverage and therefore carry a premium of less than \$2,500.** Individuals purchasing such policies would get free health insurance, plus the excess of \$2,500 over the premium in cash. The result would be a large revenue loss to the State with very little increase in real health insurance coverage.

The bill would provide a credit for health insurance premiums that are currently being paid by employees. In addition, it would provide an incentive for employers who currently require employees to pay less than \$2,500 of the cost of their health insurance premium to increase the share of the premium paid by employees. Both of these effects increase the revenue cost of the proposal without changing the amount of health insurance purchased.

By making the credit the greater of \$2,500 or 50% of the amount an individual pays for health insurance the bill would provide a very uneven subsidy for the purchase of health insurance because premiums vary widely by the age, gender, and other characteristics of an individual. Thus, the premium subsidy provided by the credit could far exceed 100% for a young healthy male purchasing a policy with low deductibles and co-pays, but would be limited to 50% for individuals with higher expected health expenses and therefore higher premiums, who because of low income would likely purchase a policy with relatively high deductibles and co-pays.

ALTERNATIVES

The bill as drafted does not define health insurance coverage which is why there is a very high

fiscal impact. One option is to require those that are eligible for Medicaid or another state program to enroll rather than receive the credit. For this population there are several state programs such as State Coverage Insurance (SCI).

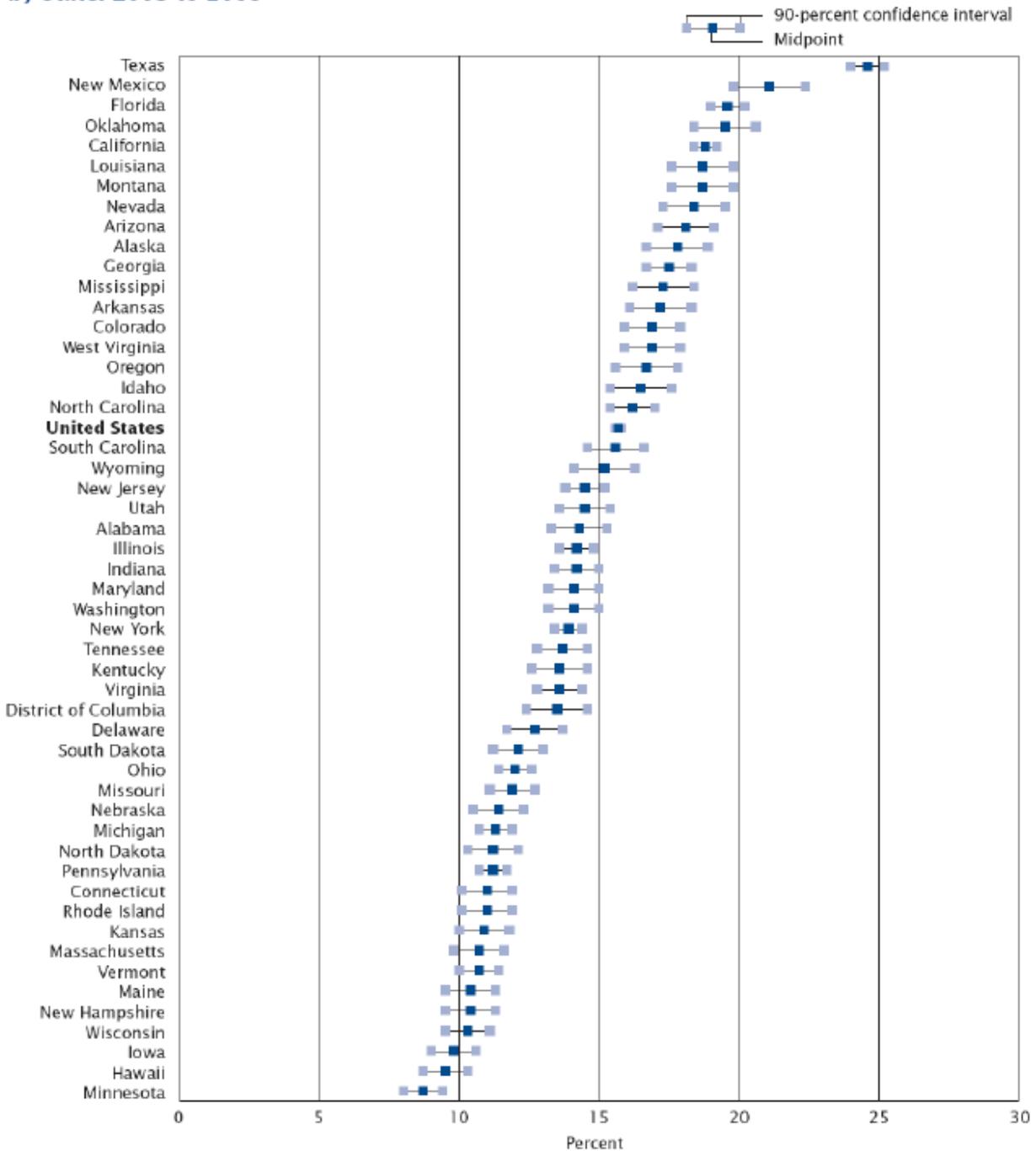
CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Bill Number	Title	Brief Description
H	37 ELECTRONIC MEDICAL RECORDS ACT	Requires electronic medical records
H	62 HEALTH SOLUTIONS NEW MEXICO ACT	Executive proposal to create health care authority, mandate coverage and consolidate agencies
H	147 HEALTH CARE AUTHORITY ACT	Creates a health care authority
H	182 SIMPLIFY MEDICAID ELIGIBILITY	Makes changes to determining and maintaining Medicaid eligibility
H	205 HEALTH INSURANCE EXCHANGE ACT	Creates an insurance exchange
H	214 HEALTH SECURITY ACT	Single payer similar to model evaluated by Health Coverage for New Mexicans Committee
S	3 HEALTH SECURITY ACT	Single payer similar to model evaluated by Health Coverage for New Mexicans Committee
S	14 HEALTH PROFESSIONAL RECRUITMENT & RETENTION	Appropriation of 1.765 million aimed at retention programs
S	39 HEALTH INSURANCE TAX CREDIT	Creates a credit for the provision of health insurance
S	40 HEALTH INSURANCE IN COLLEGE SCHOLARSHIPS	Mandates that college affordability go to student health insurance coverage.
S	228 HEALTH INSURANCE EXCHANGE ACT	Creates an insurance exchange
S	115 EMPLOYEE HEALTH INSURANCE PREMIUM TAX CREDIT	Creates a credit for the provision of health insurance

OTHER SUBSTANTIVE ISSUES

The importance of health care coverage in New Mexico cannot be understated. Other than Texas, no other state has a higher percentage of uninsured than New Mexico. The chart below shows the state rankings.

Three-Year Average Percentage of People Without Health Insurance Coverage by State: 2003 to 2005



Source: U.S. Census Bureau, Current Population Survey, 2004 to 2006 Annual Social and Economic Supplements.

Arizona has a health insurance premium credit with a maximum amount for all credits set at \$5 million and the credit is awarded on a first come, first served basis.

TECHNICAL ISSUES

TRD:

- (1) Paragraph E (beginning on page 3, line 10) requires using federal poverty levels as of December 31 of the taxable year to determine eligibility for the credit. This date is not

timely for developing programs for processing the returns, for publishing tax return instructions, or for providing instruction to software developers who are developing programs to prepare returns. (2) The bill would deny a credit to individuals if they take a deduction under 7-2-35 NMSA 1978 for their premium cost, but the bill does not deny the credit in cases where an individual claimed a medical care credit under §7-2-18.13 NMSA or an exemption under §7-2-5.9. (3) The bill limits the credit to residents, but does not apportion or otherwise limit the credit based on the amount of time a resident is in the State.

ADMINISTRATIVE ISSUES

TRD: The credit would be difficult to audit and have high potential for fraudulent claims. The Department does not currently request the information about the level or nature of individuals' health insurance coverage. The credits would be difficult to audit without more information, which will complicate returns and increase the cost of return processing.

NF/bb: nt